

EE 360: Introduction to Thai Economy

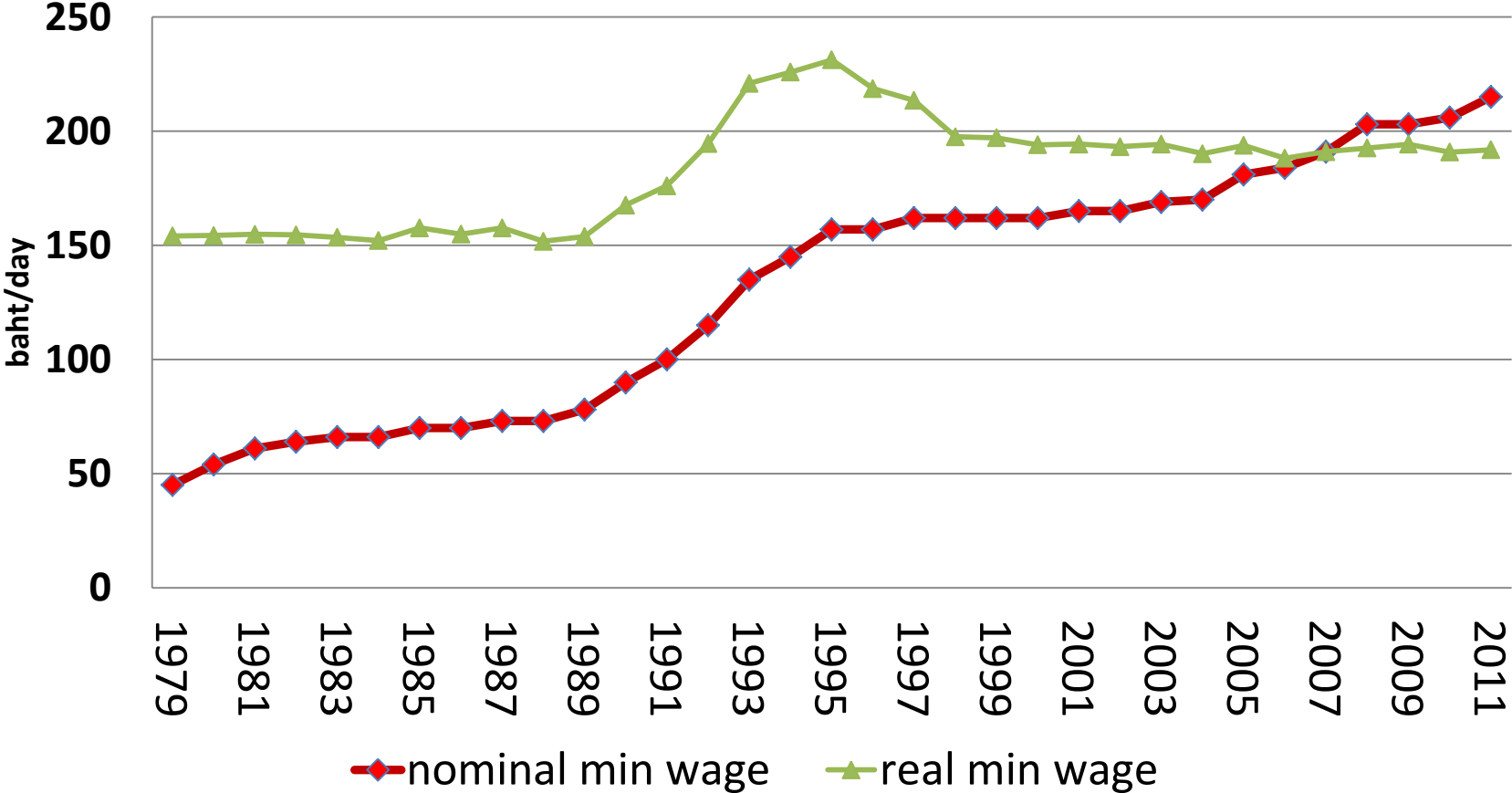
Lecture 1

bhanupong

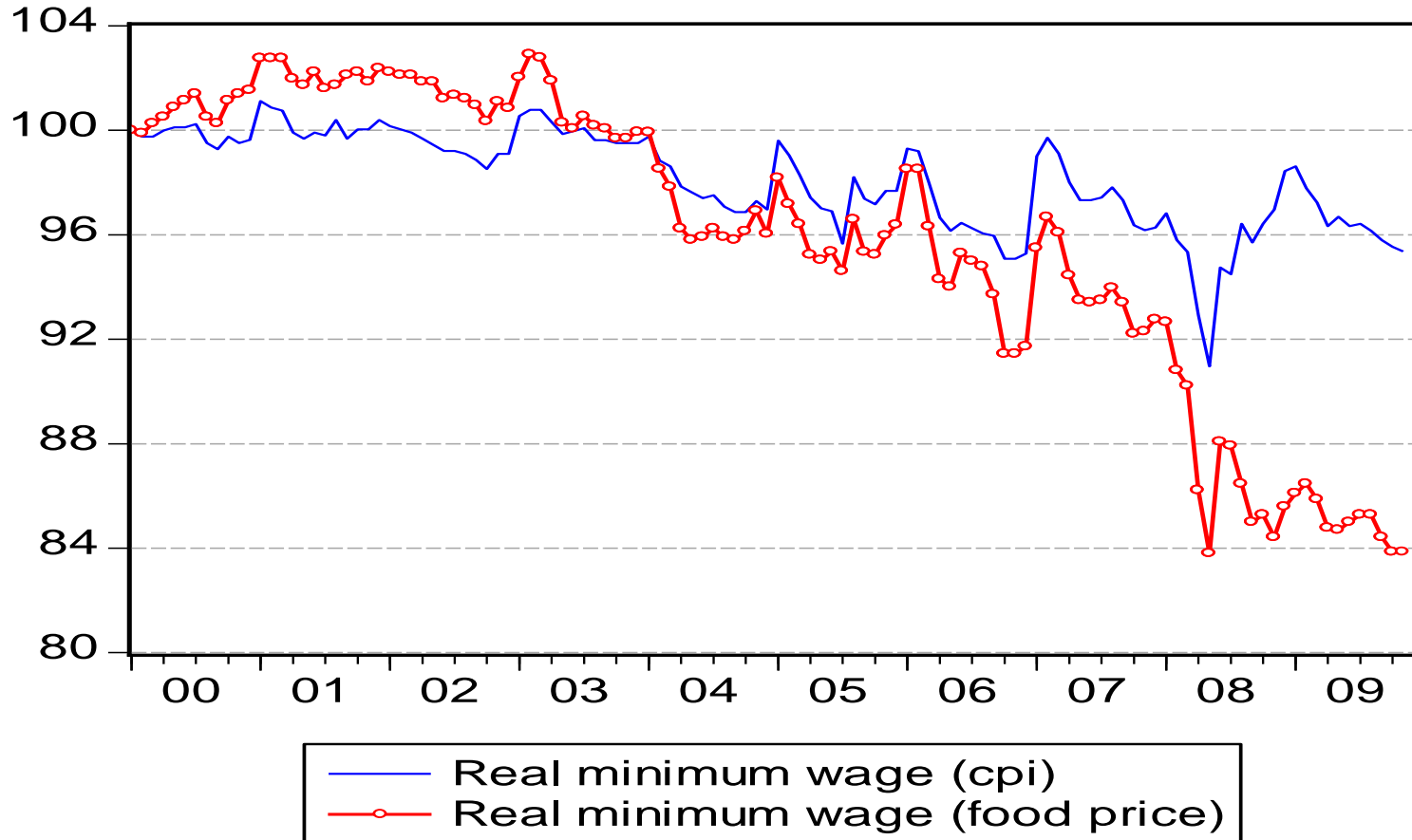
Main themes

- Thailand's Minimum wage: 300 baht (\$8.60) *per day*
- Global trend
- Consequences of minimum wages

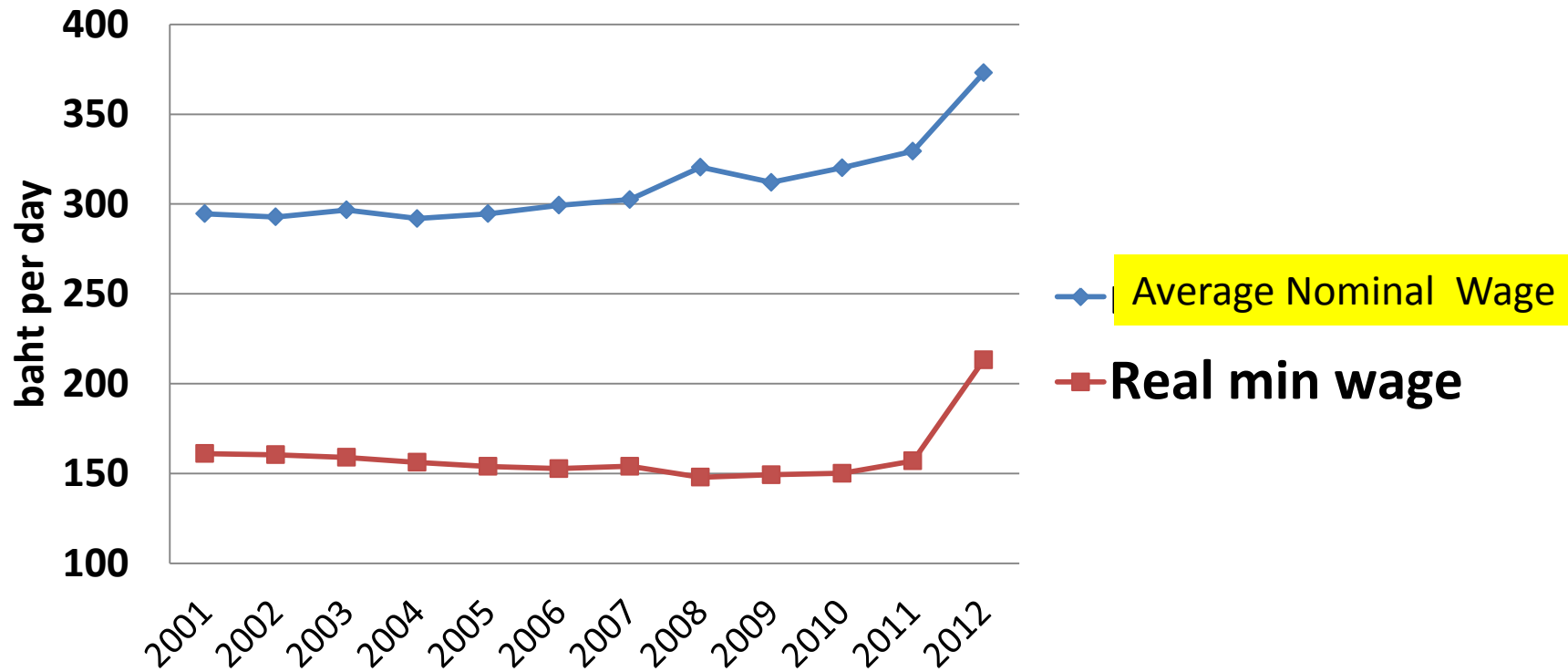
Thailand's nominal vs. real minimum wage rates 1979-2009



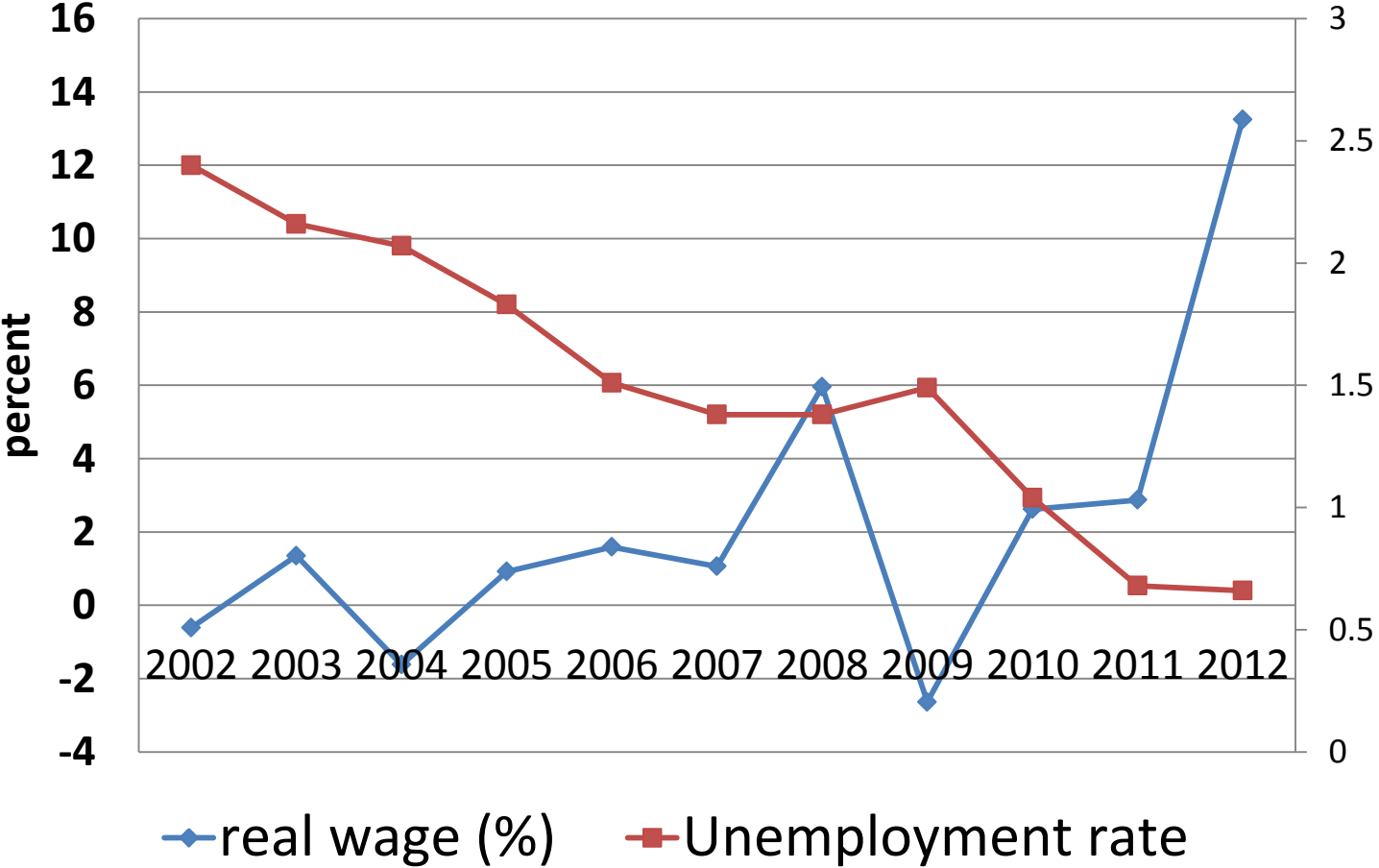
Declining real minimum wages 2000-2009



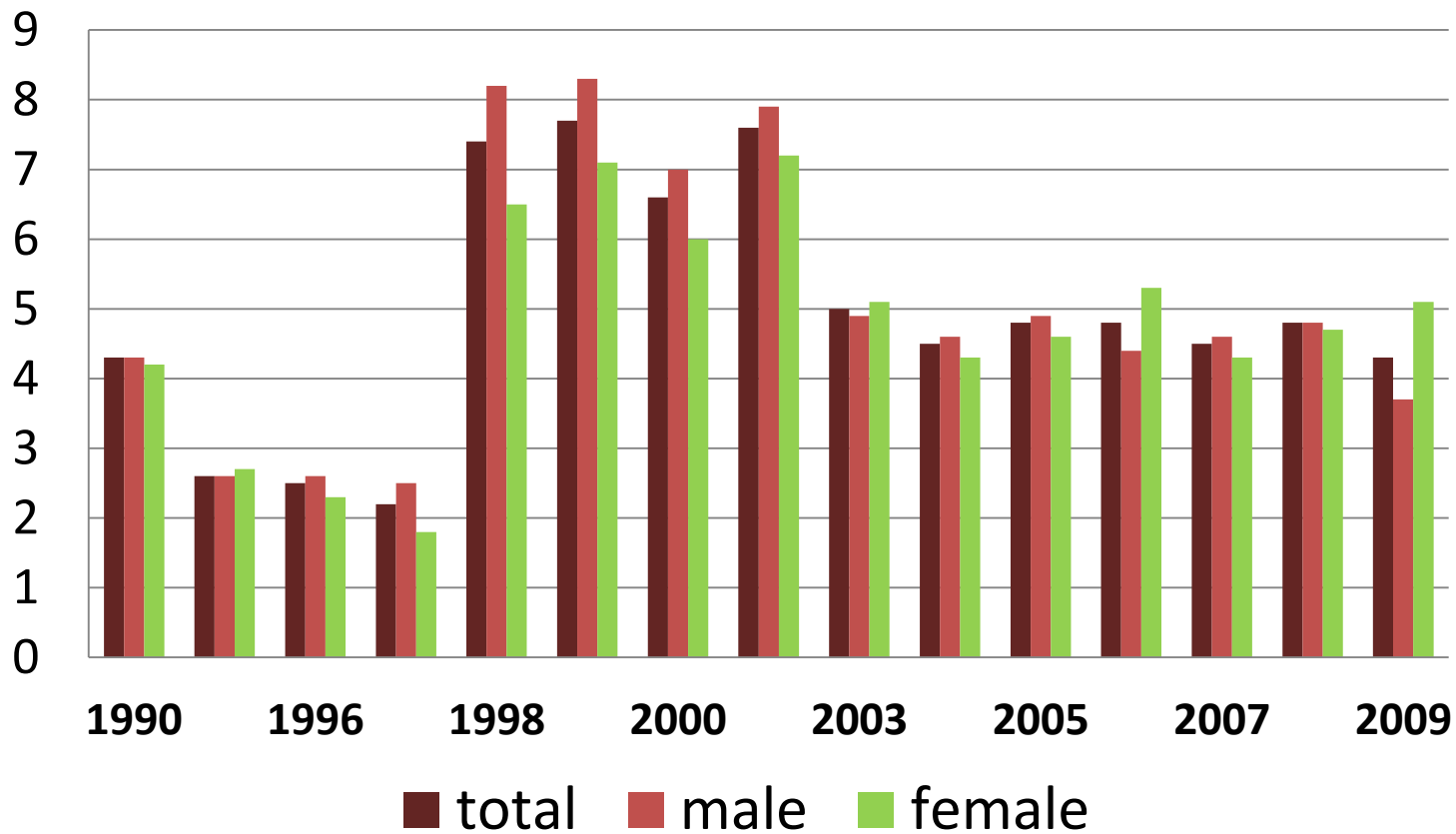
Thailand's wages (Real vs nominal wages) 2001-2012



Wage Flexibility

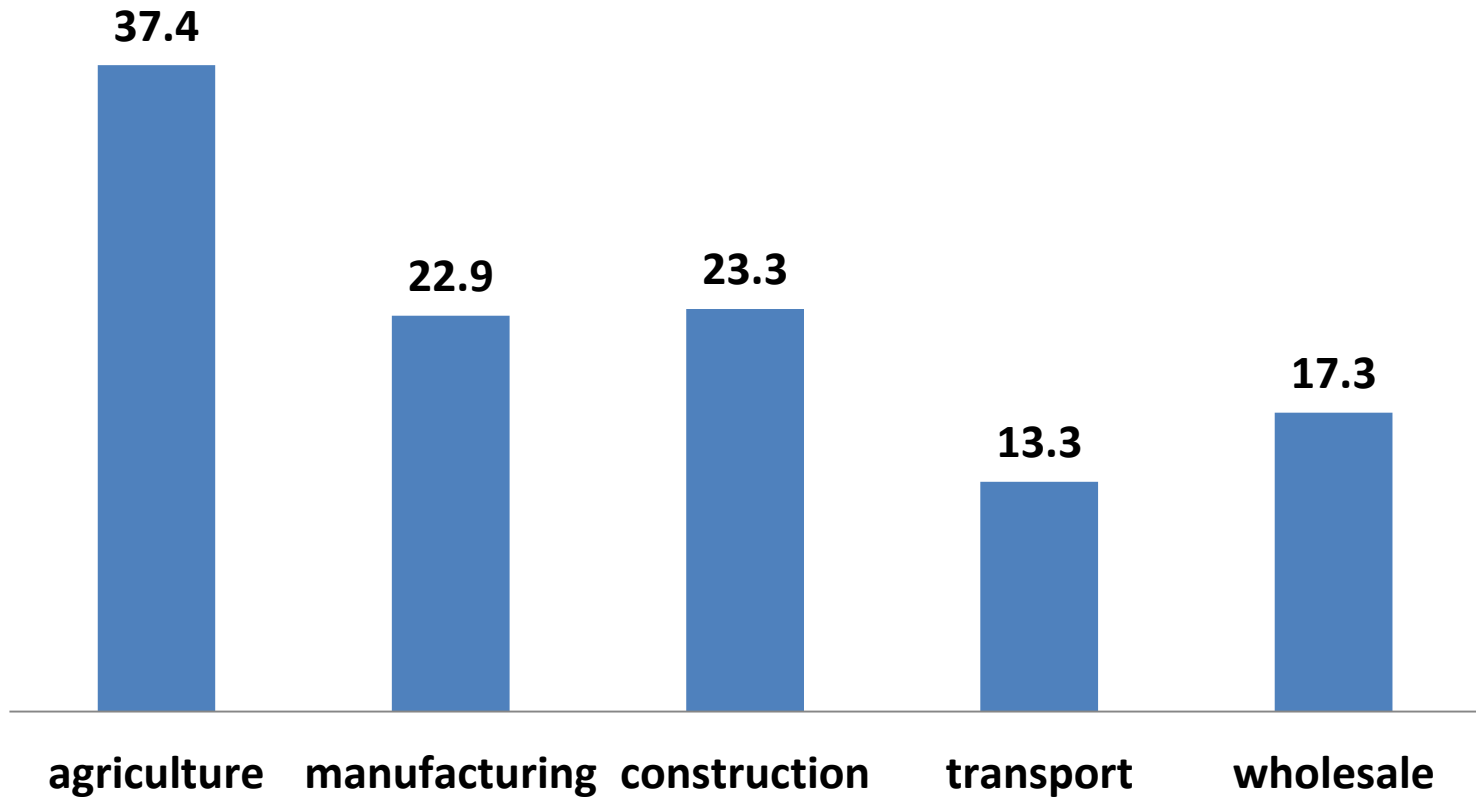


Youth Unemployment Rate: Thailand

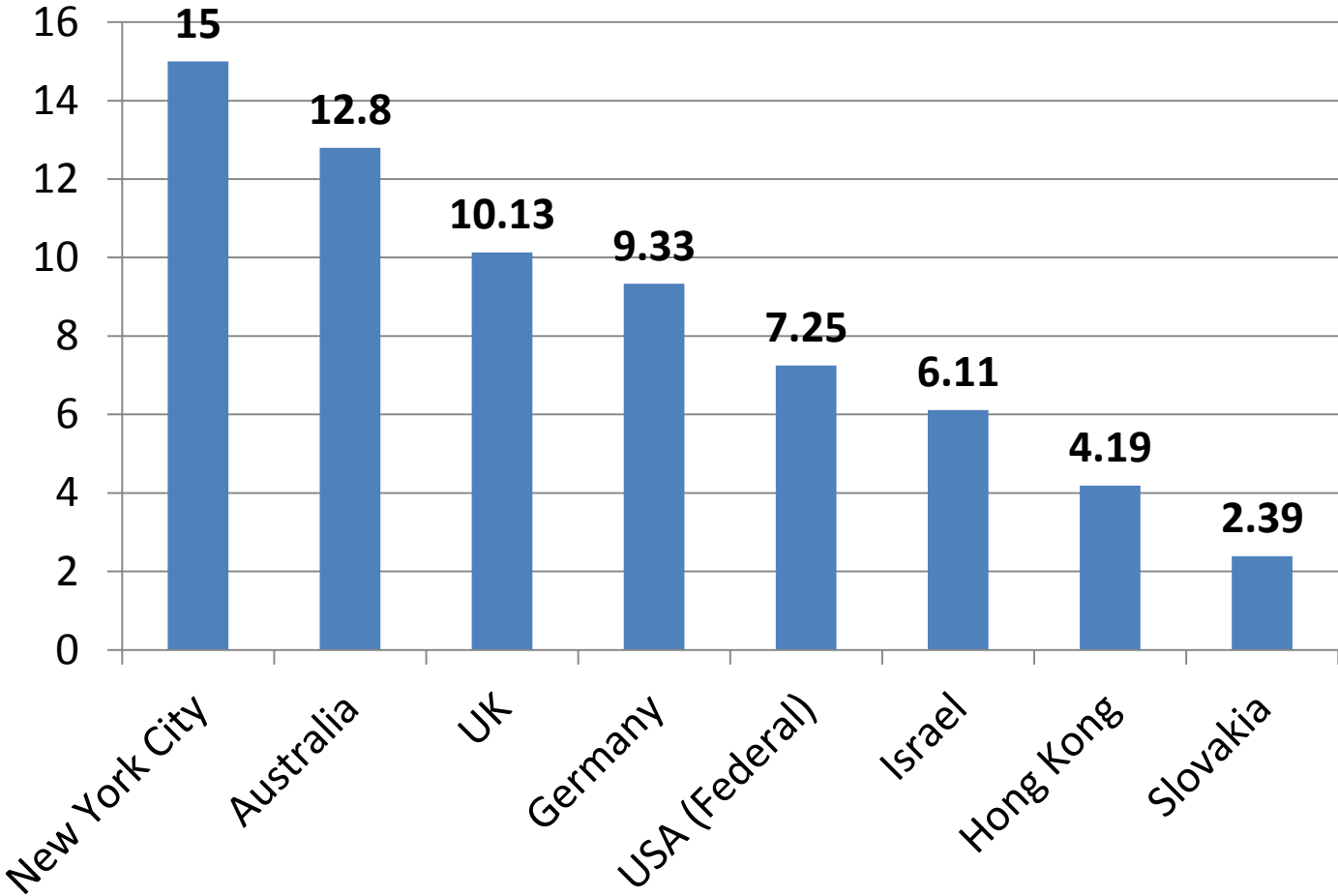


Underemployment

percentage of those who worked fewer than 34 hours a week in January 2011



Minimum Hourly Wages (USD)

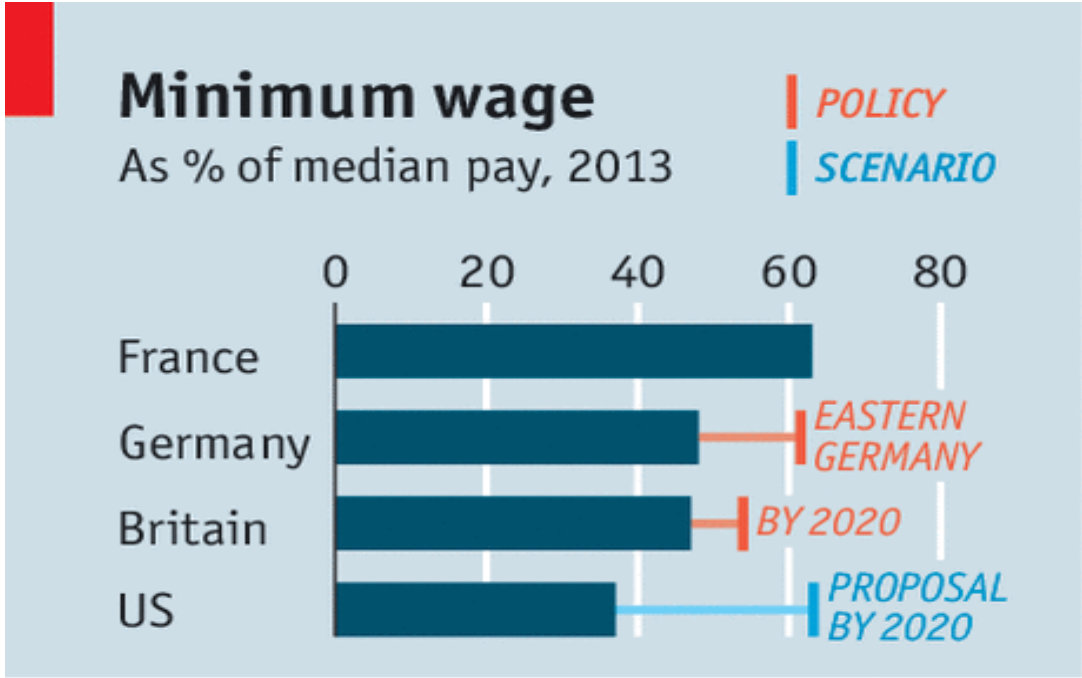


The Economist: July 21, 2015

- By moving towards sharply higher minimum wages, policymakers are accelerating into a fog. Little is known about the long-run effects of modest minimum wages.
- And nobody knows what big rises will do, at any time horizon.
- It is reckless to assume that because low minimum wages have seemed harmless, much larger ones must be, too.

A global movement toward much higher minimum wages is dangerous

The Economist: Jul 25th 2015



Economist.com

A dangerous move?

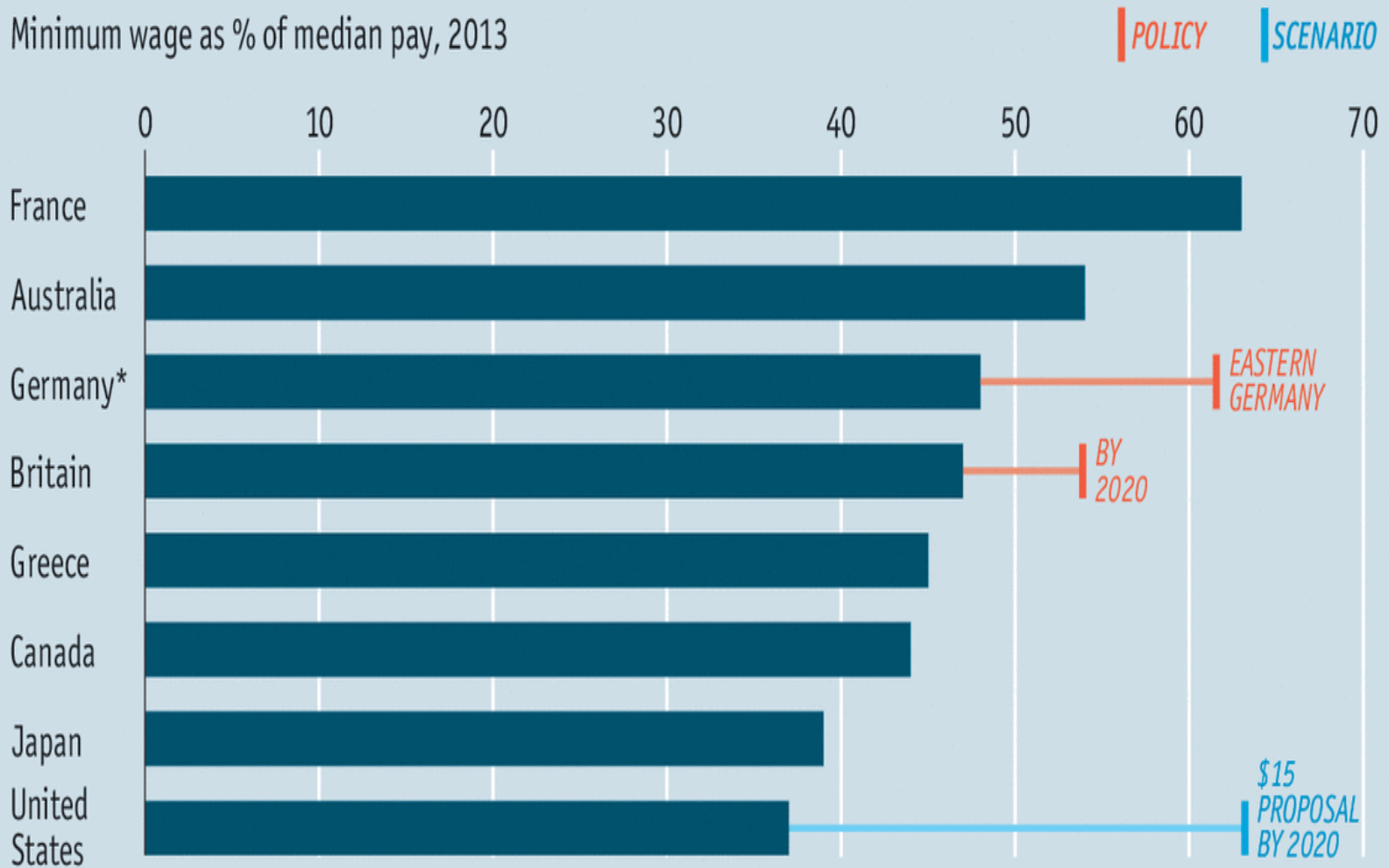
- One danger is that a high minimum wage will push some workers out of the labor force for good.
- A building worker who loses his job in a recession can expect to find a new one when the economy picks up.

High vs. Low Skills

- A cashier with few skills who, following the introduction of a high minimum wage, becomes permanently more expensive than a self-service checkout machine will have no such luck.
- The British government's defense of its new policy—that a strong economy will generate enough jobs to replace those lost to a higher minimum wage—is disingenuous: the jobs are still lost.

Increasing the bind

Minimum wage as % of median pay, 2013



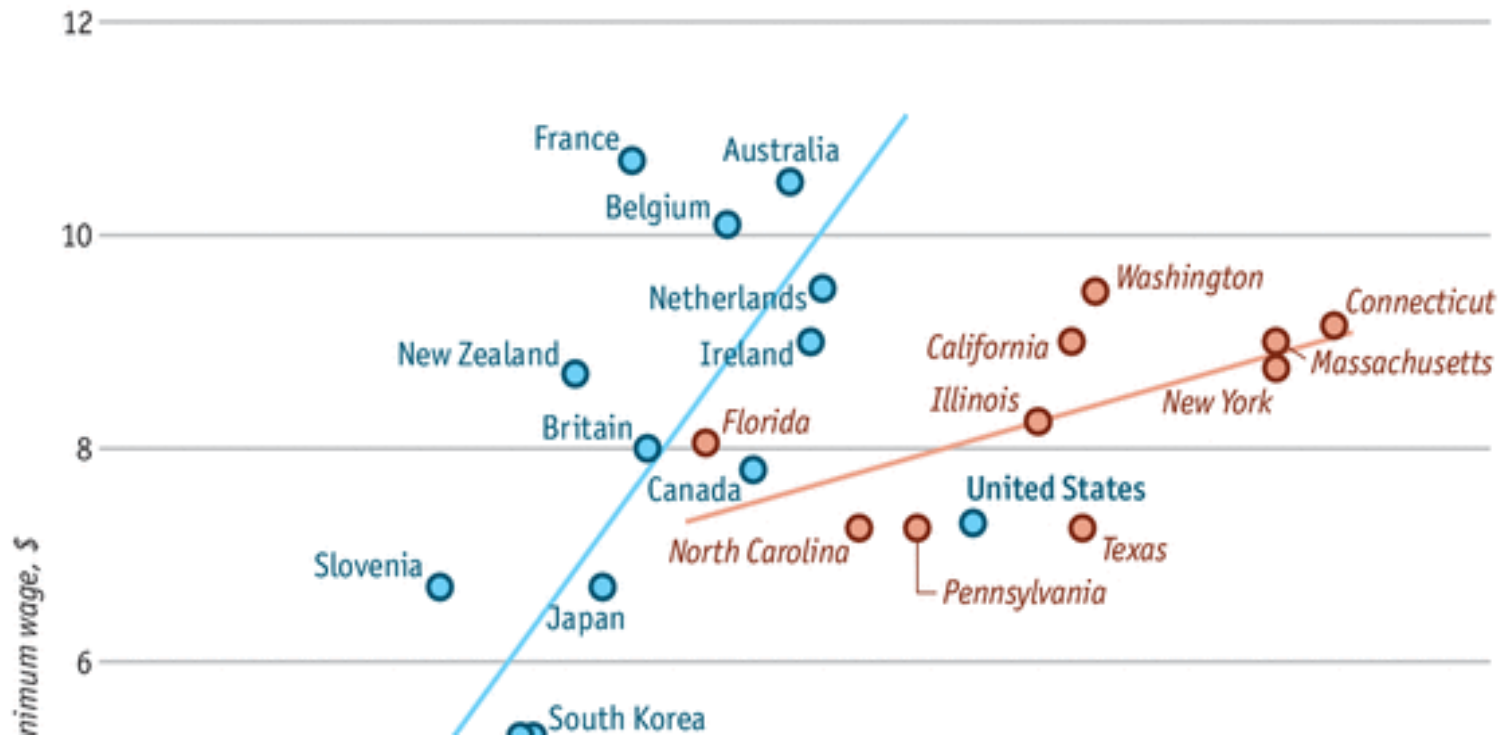
Sources: OECD; European Commission; OBR; *The Economist*

*Germany minimum wage implemented in 2015

What can you see?

Minimum wage and income

Selected OECD countries and US states, 2013



The Economist

- Milton Friedman described minimum wages as a form of discrimination against the low-skilled.
- Technological advances are enabling firms to replace more and more people with computers and robots, imperiling jobs.

The Economist

- Some low-skilled positions, such as cleaning, are hard to automate.
- But millions of low-skilled workers sitting at checkouts and receptions, picking products off warehouse shelves and even driving lorries are vulnerable to replacement.
- An ever-higher minimum wage will encourage investment in the technology to replace them.
- Higher minimum wages will also affect workers in tradable sectors such as tourism and manufacturing, where they risk losing ground to foreign competitors.

Minimum Thought

- Better tools are available. Tax credits (income top-ups for low earners) are a much more efficient way for governments to help the poor—about three-quarters of the benefit ends up with employees.
- To the extent that firms benefit, they are encouraged to employ low-skilled workers rather than automate jobs.
- Minimum wages have a powerful emotional and political appeal.
- But governments should deal in evidence not sentiment.

Minimum Thought

- Minimum wages can work as part of the policy mix only if they are modest.
- Set too high, they harm the very people they are supposed to help.

Questions: Higher minimum wages

- Will it lead to high inflation?
- Will it reduce poverty?
- Will it lead to exploitation of migrant workers?
- Will it shift Foreign Direct Investment abroad?

Moodle key: 2475